



STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.bpu.state.nj.us

IN THE MATTER OF THE JOINT PETITION
OF ELIZABETHTOWN WATER COMPANY,
INC. AND THE MOUNT HOLLY WATER
COMPANY FOR APPROVAL OF A)
FINANCIAL SERVICES AGREEMENT WITH)
AMERICAN WATER CAPITAL CORP.

WATER

ORDER OF APPROVAL

DOCKET NO. WF05060538

(SERVICE LIST ATTACHED)

BY THE BOARD:

Elizabethtown Water Company, Inc. ("EWC"), a duly organized public utility corporation of the State of New Jersey, and The Mount Holly Water Company ("MHWc"), a duly organized and existing public utility of the State of New Jersey (collectively EWC and MHWc are hereinafter sometimes referred to as "Joint Petitioners") by Petition filed with the New Jersey Board of Public Utilities ("Board") on June 13, 2005, pursuant to N.J.S.A. 48:3-7.2 for authority to execute a Financial Services Agreement ("Financial Agreement") by and between each of the Joint Petitioners and American Water Capital Corp. ("AWCC").

EWC is a regulated public utility corporation engaged in the production, treatment and distribution of water within its defined service territory including portions of Hunterdon, Mercer, Middlesex, Morris, Somerset, and Union Counties. Within its service territory, EWC serves approximately 207,000 customers in 49 municipalities.

MHWc is a regulated public utility corporation engaged in the production, treatment and distribution of water within its defined service territory including portions of Burlington and Ocean Counties.

American Water Services, Inc. and AWCC are wholly owned subsidiaries of American Water Works Company, Inc. ("American"). American further wholly owns 25 utility subsidiary companies as well as various non-utility subsidiary companies that together provide water, wastewater and other water resource management services to a population of approximately eighteen million in twenty-nine states and three provinces in Canada. American is a subsidiary of Thames Water Aqua US Holdings, Inc. ("TWAUS").

MHWc is a wholly owned subsidiary of EWC. EWC is a wholly owned subsidiary of E'town Corp., which is in turn a wholly owned subsidiary of Thames Water Holdings, Inc. Thames Water Holdings is a wholly owned subsidiary of TWAUS. American and Thames Water Holdings, accordingly, are affiliates and subsidiaries of TWAUS.

The financial agreements to be executed by and between each joint petitioner and AWCC are essentially the same as those executed by and between every other utility affiliate of American ("Affiliate"), including New Jersey American Water Company ("NJAWC"). The Financial Agreement by and between AWCC and NJAWC was approved by the Board in an Order of Approval dated August 17, 2000, in Docket No. WF00040252.

THE FINANCIAL AGREEMENT

AWCC is a Delaware Corporation wholly owned by American and dedicated to providing financial services only to the Joint Petitioners, Affiliates and American. The services include providing cash management services through cash sweeps, investment of excess cash and of lending funds, both on a short-term basis and a long-term basis, to each of the Joint Petitioners and affiliates thereof.

At present, each of the Joint Petitioners provide for its own financial needs, whether those needs be via lines of credit or long-term borrowings. Additionally, each of the Joint Petitioners presently has its cash management functions provided by the Shared Services Center-Cash Department ("SCC-Cash") of American on a daily basis. The two companies have loans with Thames Water Holdings Inc. and use these to handle working capital needs. SCC-Cash currently handles the cash management functions of Joint Petitioners, separate and apart from the rest of the affiliated AWCC companies. Consolidating the Joint Petitioners' cash management functions will increase the economies of scale and the available pool of resources for both the Joint Petitioner and Affiliates.

Financial market conditions that prevailed in 2000, when the NJAWC Financial Agreement was presented to the Board for approval, still prevail today. Those market conditions presented an opportunity for NJAWC and its Affiliates to borrow on an unsecured basis at rates prevailing in the public market while minimizing borrowing expenses. Lenders still are syndicated and securitizing their loans in larger amounts so they can lend large amounts and reduce their exposure to a single borrower. Larger loans are less costly for each dollar borrowed because up front issuance costs remain relatively constant regardless of the size of the loan. Additionally, changes in the Federal securities laws enabled public security markets to become an attractive alternative to private placements and bank borrowings on which utilities traditionally relied. The natural result is that borrowers obtain faster and easier access to the public debt market that has in turn encouraged those markets to provide short-term debt opportunities on attractive terms.

These developments caused lenders, such as insurance companies, to favor public markets as more attractive investment alternatives than the traditional, secured, privately placed bonds that were, at one time, the mainstay of their portfolios. As institutional lenders such as insurance companies moved into the public market, the private market shrunk. Accordingly, with institutional lenders moving into the public market, the dollar volumes of the issues that the market was willing and able to accommodate also increased. As the per-dollar cost of substantial borrowings had decreased and competition among lenders in the market increased, it became apparent that significant savings can be derived by borrowers if they are able to participate in that market. Clearly, however, borrowers can derive those benefits only if the amounts they borrow are large enough, and their credit rating high enough, to meet the market's significant entry level requirements. EWC had a credit rating of A+ per Standard and Poor's at the time of its last long-term debt issuances in 2002. EWC will no longer maintain its own

constant credit ratings, in similar fashion to the strategy undertaken by NJAWC subsequent to the approval of NJAWC's Financial Services Agreement with AWCC.

Through pooling of borrowing requirements on both short-term and long-term bases, Joint Petitioners and Affiliates can borrow large enough amounts that will enable them to obtain advantageous terms that are presently available. Combined borrowing power increases the efficiency of borrowing operations and lowers the cost thereof.

The financing program contemplated under the Financial Agreement, and now in effect for NJAWC, was designed to enhance each Affiliate's ability to borrow at rates prevailing in the public market while minimizing borrowing expenses. This has been accomplished by utilizing the borrowing power and combined borrowing efficiency of all of the Affiliates through AWCC. Superior terms can be obtained for offerings of substantial size in the public market. Equally as important, each Affiliate is able to benefit from the economies of scale that result from the shared fixed cost of debt issue rather than bearing such costs individually. Accordingly, the respective Affiliate has access to the public market on terms and costs that it could not achieve on a stand alone basis.

CASH MANAGEMENT SERVICES

Part of the short-term cash needs of Joint Petitioners and the Affiliates will be met through a cash management program. Under this program, operating cash surpluses of each Affiliate will be swept on a daily basis. Where excess cash is temporarily available, that cash will be "lent" to AWCC and AWCC will pay the lender interest on the loan at the same rate that AWCC is required to pay for its own short-term borrowings under AWCC's bank lines of credit or borrowings from RWE Aktiengesellschaft ("RWE"), the parent company of Thames Water Aqua Holdings GmbH, which is itself the parent company of TWAUS. To the extent that a Joint Petitioner has excess cash, this interest will augment that Joint Petitioner's investment income because that Joint Petitioner will receive more from AWCC in interest on these excess cash balances than it could have received from bank deposits and other investment sources available to it. This occurs because a bank makes a profit on the spread, i.e., each Joint Petitioner would receive less in interest on what it has deposited with the bank than would have paid in interest on the funds it borrows from the bank. AWCC will make no profit because it borrows from, and lends to, each Joint Petitioner or Affiliate at the same rate that it offers each Affiliate for each service.

The cash that AWCC obtains through daily cash sweeps will be used to offset what AWCC would otherwise be required to obtain under bank credit lines, through the public market or from RWE on a short-term basis. The excess cash will be loaned by AWCC to Affiliates that have a cash deficit, for which they will also pay AWCC interest at the same rate as AWCC pays for its own short-term borrowings. Use of internally generated cash in this fashion lowers overall borrowing costs, such as commitment fees, needed to provide short-term borrowing requirements while increasing investment income on short-term investments.

SHORT-TERM BORROWING (LINES OF CREDIT)

Under the financing program, each year Joint Petitioners and their Affiliates will provide AWCC an estimate of borrowing requirements for the coming year and, on a rolling basis, for one to three years in advance. AWCC will arrange for short-term borrowings to provide the funds necessary to meet the needs of Joint Petitioners and the other Affiliates. These borrowings can be through bank lines of credit and, where appropriate, through short-term obligations issued in

the public market, but will primarily be through funds provided by RWE. Borrowings from these sources will be made available to each Joint Petitioner and their Affiliates on the same basis as that on which AWCC has borrowed.

LONG-TERM FINANCING

On the basis of the yearly information provided by Joint Petitioners and their Affiliates, AWCC will arrange borrowing commitments and borrowing programs under its existing borrowing facilities in order to provide the funds necessary to meet the requirements of each of the Joint Petitioners and their Affiliates. It is expected that AWCC borrowings will be unsecured and that American will issue a "support letter" for the benefit of the purchasers of AWCC's debt. This will require American to continue to own all the issued and outstanding stock of AWCC, to cause AWCC to maintain positive tangible net worth and, if AWCC is unable to satisfy its obligations when due, then American must provide funds to assure such payment. AWCC has not been precluded from, and will not be precluded from, engaging in secured long-term financings if the terms of the financing are determined to be more favorable.

At the present time, EWC plans to refinance certain long-term debt that is scheduled to come due in November, 2006. MHWCC does not have any plans to issue any long-term debt in the next twelve months. In any event, each Joint Petitioners will timely file for such financing approval pursuant to N.J.S.A. 48:3-9 as is normally required when such long-term financing is necessary. Such application to the Board will seek approval to issue long-term debt not to exceed a specific amount within a set time period and within specific parameters.

CHARGES FOR SERVICES RENDERED BY AWCC

The cost incurred by AWCC in connection with its bank credit lines, short-term public borrowings and borrowings from RWE will be divided among Joint Petitioners and the Affiliates in proportion to the maximum principal amount that each requests be made available to it during the course of a year.

Long-term borrowing costs incurred by AWCC will be passed through to each Joint Petitioner and each Affiliate in proportion to the principal amount of that borrowing that is loaned to the Joint Petitioner or the Affiliate. Additionally, AWCC will also charge each Joint Petitioner and each Affiliate an appropriate portion of AWCC's overhead. Overhead costs will be allocated among each Joint Petitioner and each Affiliate in the same proportion as each Joint Petitioner's or each Affiliate's long and maximum short-term borrowings and investments in a year bear to the total of all the long and maximum short-term borrowings and investments by all of the Affiliates and Joint Petitioners together during the course of the same year. Overhead charges will be offset by the reduction in the costs incurred by each Joint Petitioner and each Affiliate to obtain its own financing. No profit element will be included in any charges rendered to the Joint Petitioners.

Indebtedness incurred pursuant to the Financing Agreement will be evidenced by Notes. Since obligations under the Financing Agreement are several and not joint, the obligation of each Joint Petitioner is limited to the amounts it actually borrows. Each Joint Petitioner may terminate its participation in the Financial Agreement by giving ten days prior written notice of the same, whereas, AWCC can terminate each Financial Agreement only by giving ninety days prior written notice thereof. Termination will not affect any amount then outstanding or due under an outstanding note.

While provisions of the Financial Agreement and financing program are intended to make the best terms available to each Joint Petitioner and each Affiliate through a consolidated borrowing program, each Joint Petitioner and each Affiliate will retain the ability to obtain financial services and borrowings elsewhere, in the event such financial services can be obtained on more favorable terms than under the Financial Agreements.

The Division of the Ratepayer Advocate has reviewed the Petition and the Financial Agreement and believes a properly limited money pool can provide a benefit to utilities and customers. Those benefits can include lower borrowing costs, higher levels of earned interest and lower administrative costs. Therefore, Ratepayer Advocate is not opposed to approval of the Petition and the Financial Agreement subject to certain conditions set forth below.

The Board, after investigation, having considered the Petition and exhibits submitted in this proceeding, being satisfied with the action proposed to be taken by Joint Petitioner as indicated above, FINDS that the proposed transactions are in accordance with the law and are in the public interest. Therefore, the Board HEREBY APPROVES AND AUTHORIZES Joint Petitioners' Financial Services Agreement by and between each of the Joint Petitioners and AWCC as described herein.

This Order is issued subject to the following provisions:

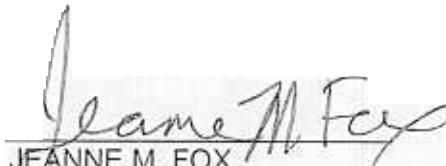
1. This Order shall not be construed as a certification that the securities proposed to be issued will be represented by tangible or intangible assets of commensurate value or investment costs;
2. This Order shall not be construed as directly or indirectly fixing, for any purpose whatsoever, any value of the tangible or intangible assets now owned or hereafter to be owned by the Joint Petitioners;
3. Joint Petitioners shall not borrow through the Financial Services Agreement if it will be able to obtain funds at lower costs either through a direct bank borrowing or issuance of its commercial paper;
4. Joint Petitioners shall semiannually file with the Board statements for the amount borrowed and use of the proceeds pursuant to N.J.A.C. 14:1-5.9(b);
5. Joint Petitioners shall make available to the Board Staff, upon request, such information and records deemed relevant by the Board and which pertain to the services provided by AWCC and the amounts paid for those services;
6. The Board retains the right to review the reasonableness of the actual charges in the context of any subsequent rate case proceeding;
7. Joint Petitioners may only deposit with AWCC such surplus cash as it would otherwise have available for investment in short-term investment instruments;
8. This Order shall not affect nor in any way limit the exercise of the authority of this Board or of the State of New Jersey in any future proceeding with respect to rates, franchises, services, financing, accounting, capitalization, depreciation or in any other matters affecting the Joint Petitioners;

9. Funds provided by a utility may not be invested in, or loaned to, non-regulated or non-U.S. entities or operations;
10. Funds borrowed from or loaned to cash management or money pool shall be subject to a reasonable interest rate, such as the commercial paper rate available to the corporation;
11. All transactions shall be accounted for separately as Accounts Receivable or Accounts Payable on the utility's books of account;
12. Utilities that participate in the cash management program must determine, on a quarterly basis, the percentage of their capital structure that constitutes proprietary capital. The proprietary capital ratio must be computed using a formula in which the total of the balances in the Proprietary Capital Accounts is the numerator and the total proprietary capital plus the total of the Long-Term Debt Accounts is the denominator;
13. In the event that the proprietary capital ratio is less than 30 percent, the utility must notify the Board within 45 days after the end of each calendar quarter, and must describe the events and/or transactions causing the proprietary capital ratios to be less than 30 percent. The extent to which the utility has amounts loaned or money advanced to their parent, subsidiary, or affiliated companies through the cash management program must also be reported, along with plans, if any, to regain at least a 30 percent proprietary capital ratio;
14. In the event that the proprietary capital ratio subsequently meets or exceeds 30 percent, the utility must notify the Board within 45 days after the end of each calendar quarter; and

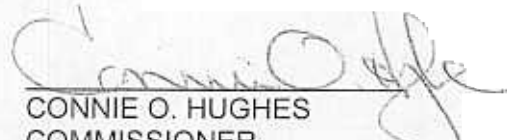
15. The parent will make available to Board Staff or Ratepayer Advocate, a detailed accounting of all financial transactions related to cash management.

DATED: 2/2/06

BOARD OF PUBLIC UTILITIES
BY:


JEANNE M. FOX
PRESIDENT


FREDERICK F. BUTLER
COMMISSIONER

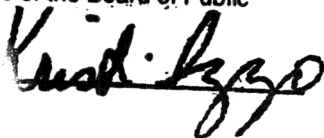

CONNIE O. HUGHES
COMMISSIONER


JOSEPH L. FIORDALISO
COMMISSIONER

ATTEST:


KRISTI IZZO
SECRETARY

I HEREBY CERTIFY that the within
document is a true copy of the original
in the files of the Board of Public
Utilities



**In the Matter of the Joint Petition of Elizabethtown Water Company, Inc. and the Mount
Holly Water Company for Approval of a Financial Services Agreement with American
Water Capital Corp.**

Docket No. WF05060538

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